

Internal Revenue Service, Treasury

§ 1.669(e)-2A

preceding taxable year, then an additional amount is also deemed to have been properly distributed. The additional amount is equal to the "taxes imposed on the trust attributable to the undistributed capital gain" (as defined in § 1.665(d)-1A(c)) for such preceding taxable year, multiplied by a fraction, the numerator of which is the amount of the capital gain distribution allocated to such preceding taxable year and the denominator of which is the undistributed capital gain for such preceding taxable year. See paragraph (b) of example 1 and paragraphs (c) and (f) of example 2 in § 1.669(e)-2A for illustrations of this paragraph.

(b) For the purpose of paragraph (a) of this section, the undistributed capital gain of any preceding taxable year and the taxes imposed on the trust for such preceding taxable year attributable to such undistributed capital gain are computed after taking into account any capital gain distributions of any taxable years intervening between such preceding taxable year and the taxable year. See paragraph (c) of § 1.669(a)-1A, paragraph (c) of example 1 and paragraphs (e) and (h) of example 2 in § 1.669(e)-2A.

[T.D. 7204, 37 FR 17156, Aug. 25, 1972]

§ 1.669(e)-2A Illustration of the provisions of section 669.

The application of the provisions of §§ 1.669(a)-1A, 1.669(d)-1A, and 1.669(e)-1A may be illustrated by the following examples:

Example 1. (a) A trust created on January 1, 1974, makes capital gain distributions as follows:

1979.....	\$14,000
1980	60,000

The trust had accumulated income in 1974.

For 1974 through 1978, the undistributed portion of capital gain, taxes imposed on the trust attributable to the undistributed capital gain, and undistributed capital gain are as follows:

Year	Undistributed portion of capital gain	Taxes imposed on the trust attributable to the undistributed capital gain	Undistributed capital gain
1974	\$24,200	\$2,830	\$21,370
1975	32,200	4,330	27,870
1976	12,200	1,130	11,070
1977	None	None	None
1978	10,200	910	9,290

(b) Since the entire amount of the capital gain distribution for 1979 (\$14,000), determined without regard to the capital gain distribution for 1980, is less than the undistributed capital gain for 1974 (\$21,370), an additional amount of \$1,854 ($14,000/21,370 \times \$2,830$) is deemed distributed under section 669(e).

(c) In allocating the capital gain distribution for 1980, the amount of undistributed capital gain for 1974 will reflect the capital gain distribution for 1979. The undistributed capital gain for 1974 will then be \$7,370 and the taxes imposed on the trust for 1974 will be \$976, determined as follows:

Undistributed capital gain as of the close of 1974	\$21,370
Less: Capital gain distribution (1979)	14,000
Balance (undistributed capital gain as of the close of 1979)	7,370
Taxes imposed on the trust attributable to the undistributed capital gain as of the close of 1979 ($7,370/21,370 \times 2,830$)	976

(d) The capital gain distribution of \$60,000 for 1980 is deemed to have been made on the last day of the preceding taxable years of the trust to the extent of \$55,600, the total of the undistributed capital gain for such years, as shown in the tabulation below. In addition, \$7,346, the total taxes imposed on the trust attributable to the undistributed capital gain for such years is also deemed to have been distributed on the last day of such years, as shown below:

Year	Undistributed capital gain	Taxes imposed on the trust attributable to the undistributed capital gain
1974	\$7,370	\$976
1975	27,870	4,330
1976	11,070	1,130
1977	None	None
1978	9,290	910
1979	None	None
Total	55,600	7,346

Example 2. (a) Under the terms of a trust instrument, the trustee has discretion to accumulate or distribute the income to X and to invade corpus for the benefit of X. The trust is subject to capital gain throwback. Both X and the trust report on the calendar year basis. All of the income for 1974 was distributed and the capital gain was accumulated. The capital gain of the trust for the taxable year 1974 is \$40,200 and the income taxes paid by the trust for 1974 attributable to the undistributed capital gain are \$6,070. All of the income and capital gains for 1975 and 1976 were distributed and in addition the trustee made capital gain distributions within the meaning of section 665(g) of \$8,000 for each year.

(b) The undistributed capital gain of the trust determined under section 665(f) as of

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the close of 1974 is \$34,130, computed as follows:

Capital gain	\$40,200
Less: Taxes imposed on the trust attributable to the undistributed capital gain	6,070
Undistributed capital gain as of the close of 1974	34,130

(c) The capital gain distribution of \$8,000 made during the taxable year 1975 is deemed under section 669(a) to have been made on December 31, 1974. Since this capital gain distribution is less than the 1974 undistributed capital gain of \$34,130, a portion of the taxes imposed on the trust for 1974 is also deemed under section 669(e) to have been distributed on December 31, 1974. The total amount deemed to have been distributed to X on December 31, 1974, is \$9,486, computed as follows:

Capital gain distribution	\$8,000
Taxes deemed distributed (8,000/34,130×\$6,070)	1,423
Total	9,423

(d) After the application of the provisions of subpart D to the capital gain distribution of 1975, the undistributed capital gain of the trust for 1974 is \$26,130, computed as follows:

Undistributed capital gain as of the close of 1974	\$34,130
Less: 1975 capital gain distribution deemed distributed on December 31, 1974 (paragraph (c) of this example)	8,000
Undistributed capital gain for 1974 as of the close of 1975	26,130

(e) The taxes imposed on the trust attributable to the undistributed capital gain for the taxable year 1974, as adjusted to give effective to the 1975 capital gain distribution, amount to \$4,647, computed as follows:

Taxes imposed on the trust attributable to undistributed capital gain as of the close of 1974 ...	\$6,070
Less: Taxes deemed distributed in 1974	1,423
Taxes attributable to the undistributed capital gain determined as of the close of 1975	4,647

(f) The capital gain distribution of \$8,000 made during the taxable year 1976 is, under section 669(a), deemed an amount properly distributed to X on December 31, 1974. Since the capital gain distribution is less than the 1974 adjusted undistributed capital gain of \$26,130, the trust is deemed under section 669(e) also to have distributed on December 31, 1974, a portion of the taxes imposed on the trust for 1974. The total amount deemed to be distributed on December 31, 1974, with respect to the capital gain distribution made in 1976, is \$9,423, computed as follows:

Capital gain distribution	\$8,000
Taxes deemed distributed (8,000/26,130×\$4,647)	1,423

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Total	9,423
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(g) After the application of the provisions of subpart D to the capital gain distribution of 1976, the undistributed capital gain of the trust for 1974 is \$18,130, computed as follows:

Undistributed capital gain for 1974 as of the close of 1975	\$26,130
Less:	
1976 capital gain distribution deemed distributed on December 31, 1974 (paragraph (f) of this example)	8,000
Undistributed capital gain for 1974 as of the close of 1976	18,130

(h) The taxes imposed on the trust attributable to the undistributed capital gain of the trust for the taxable year 1974, determined as of the close of the taxable year 1976, amount to \$3,224 (\$4,647 less \$1,423).

[T.D. 7204, 37 FR 17156, Aug. 25, 1972]

§ 1.669(f)-1A Character of capital gain.

Amounts distributed as a capital gain distribution and the taxes attributable thereto (determined under § 1.665(d)-1A(c)) retain the character that the gain had with respect to the trust. Thus, a capital gain that was taxed to the trust as a “long-term” capital gain and the pro rata amount of taxes attributable to such long-term gain shall be treated to the beneficiary as a “long-term” capital gain when they are deemed distributed as part of a capital gain distribution. If a trust has different types of capital gain for the same taxable year, and all of the capital gains are not deemed distributed for such year under section 669(a), the amount deemed distributed from such year (including taxes deemed distributed) shall be treated as consisting of the different types of gains in the ratio that the total of each such type of gains of the trust bears to the total of all such gains for the taxable year. For example, assume that in 1975 a trust had net long-term capital gains of \$4,000 and net short-term capital gains of \$2,000. Taxes attributable to such undistributed capital gain were \$700. Therefore, undistributed capital gain for 1975 is \$5,300. In 1980, the trust distributes \$2,650 that is deemed to be undistributed capital gain from 1975. Such distribution is deemed to consist of long-term gain of \$1,766.67 and short-term gain of \$883.33. The taxes deemed distributed of \$350 consist of long-term